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ANNUAL REPORT 2012-2013

Knowledge Network Corporation

BRITISH COLUMBIA'S
Knowledge Network:

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On the Cover

James Bennett Fyer by Hollow Tree (circa 1911).
City of Vancouver Archives.

Accountability Statement

The Knowledge Network Corporation Service Plan was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and the B.C. Reporting Principles. The plan is consistent with Government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

To the best of our knowledge the significant assumptions, policy decisions, events and identified risks are current and have been considered in preparing this plan. The performance measures presented are consistent with Knowledge Network Corporation's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of Knowledge Network Corporation's operating environment, forecast conditions, risk assessment and past performance.

The Honourable Ben Stewart, Minister of Citizens' Services and Open Government

On behalf of Knowledge Network Corporation's Board of Directors, I am pleased to present the 2012/13 Annual Report.

British Columbia's Knowledge Network has had an outstanding year. A number of important initiatives have brought a successful closure to our 2010/2013 Strategic Plan: *Sustainable, Improving Service*.

Our ongoing investment in original content gave B.C. filmmakers the opportunity to share their stories with the province over the past year. Five award-winning documentaries commissioned by Knowledge Network had their world broadcast premieres in *Storyville*, our branded collection of documentaries on social and cultural issues:

- *Do You Really Want to Know?* - An examination of genetic testing at the UBC Centre for Huntington Disease.
- *High Five: A Suburban Adoption Saga* - The story of a Surrey, B.C. family's adoption experiences.
- *Aftermeth* - The struggles of drug addiction and co-dependency faced by a Hope, B.C. family.
- *Blood Relative* - The story of an activist in India, told by his niece from Surrey, B.C.
- *Coast Modern* - The pioneers of West Coast Modernist Architecture, from Los Angeles to Vancouver, and their legacies.

Our ongoing investment in original Canadian content resulted in B.C. independent producers having access to over \$1 million from the Canada Media Fund's allocation to Knowledge Network.

As part of our commitment to strengthening our relationship with donors, viewers and other stakeholders, we held special events in a number of B.C. communities, including Cranbrook, Kamloops, Nelson, North Vancouver, Powell River, Surrey, Victoria and White Rock. This provincial outreach is now an ongoing initiative to engage our audiences and build support for public service broadcasting in B.C.

These efforts contributed towards record-breaking growth in charitable donations. We are proud of our loyal support from Knowledge Partners, whose ongoing support of public broadcasting in B.C. ensures that we can continue to offer commercial-free programming that educates, informs and inspires all British Columbians.



Nini Baird, Chair

Donations and estate gifts also supported growth of the Knowledge Endowment, which has grown to \$1.3 million in just six years. The Endowment was established in 2007 with a long-term view of supporting the creation of original B.C. stories for broadcast on television and the web.

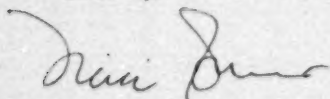
Increased charitable donations, growth in media partnerships, and revenues from BBC Kids, contributed to Knowledge Network Corporation ending the fiscal year with \$3.7 million in self-generated revenues. These revenues, combined with our Provincial Government revenue of \$6.4 million, have enabled us to carry out our public mandate and strengthen public broadcasting B.C.

Our diverse range of programs available for free viewing at Knowledge.ca led to substantial growth in web traffic. Knowledgekids.ca experienced significant growth in web traffic as well, due to increased viewing of children's programs and more interactive activities. To deepen our engagement with audiences of all ages, Knowledge Network programming is now available on smartphones and tablets. Our youngest viewers have even more opportunities to watch, play and learn with Knowledge Kids.

Knowledge Network has an exciting year ahead with the launch of a High Definition (HD) channel from our digital broadcast facility in Burnaby, B.C. set for September 2013. Our most ambitious, multi-platform commissioned project ever will have its world premiere in winter 2014. The six-part documentary series and interactive website will offer insight into emergency health care at Vancouver General Hospital and, we hope, will stimulate public discussion on health care issues impacting the province today.

Knowledge Network's achievements are made possible by the ongoing support of the Province of British Columbia, our 38,000 Knowledge Partners, our committed management team and staff, our dedicated Board of Directors, and our valued partnerships with organizations and communities throughout the province. We are grateful for their dedication. Together we will continue to fulfill our role as a trusted, public space for independent voices in British Columbia.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Nini Baird', written in a cursive style.

Nini Baird, C.M.
Chair, Knowledge Network Corporation Board of Directors

Organizational Overview

British Columbia's Knowledge Network is a viewer-supported public broadcaster. Our mission is to provide all British Columbians with a trusted alternative for the commercial-free exploration of life, connecting them to the world through television, internet, and mobile platforms.

Vision

Knowledge Network, as British Columbia's public educational broadcaster, supports lifelong learning by providing quality programming to all British Columbians through television, the web and other emerging technologies.

Enabling Legislation

Knowledge Network is a Crown corporation, created in 2008 under the Knowledge Network Corporation Act.

Our Mandate

The Knowledge Network Corporation Act lists the purposes of Knowledge Network as:

- to carry on the business of broadcasting and communications to provide unique, quality educational programming to British Columbians,
- to promote lifelong learning in British Columbia by providing quality educational programming,
- to inform and educate British Columbians about their province and about issues that are relevant to them,
- to provide British Columbians with a unique television experience, and
- to collaborate with the independent television and web media production sectors in British Columbia.

Core Business Areas

Knowledge Network brings diverse perspectives to viewers in B.C., to challenge assumptions, broaden awareness and spur the acquisition of new knowledge. We do this by:

- distributing commercial-free educational content to all British Columbians through television, internet, and mobile platforms,
- researching, filtering, licensing, and packaging content from British Columbia, Canada, and around the world that supports lifelong learning,
- commissioning, prelicensing, and developing original content for television, internet, and mobile platforms, and
- building and managing the charitable arm of Knowledge Network, including donations, legacy gifts, and bequests.

Principal Partners, Clients, and Stakeholders

Key stakeholders include:

Our Viewers - 1.4 million weekly viewers across British Columbia

Our Ministry - Ministry of Citizens' Services and Open Government

Our Donors - 38,000 Knowledge Partners

Our Storytellers - the independent production community

Our Partner in BBC Kids - BBC Worldwide

Our Regulator - Canadian Radio-television and Telecommunications Commission (CRTC)

Values

Knowledge Network is guided by these values:

Trust - We serve the public interest and deliver on our brand promise.

Integrity - We work to the best of our abilities, engaging in principled decision-making and ensuring independence in programming.

Respect - We demonstrate due regard for everyone and strive to reflect diverse points of view.

Accountability - We are open, responsible, and transparent in the conduct of our business.

Quality - We strive for excellence in the selection, presentation, and distribution of our programming and in our interactions with all those we serve.

Benefit to British Columbians

Knowledge Network is a public space for independent voices. British Columbians trust us to provide diverse points of view that challenge the way we think about current issues and inform decision-making.

Our cultural, economic, and social benefits to British Columbians include:

Literacy and Early Childhood Development

Knowledge Kids is accessible and commercial-free, providing B.C.'s children with a safe and trusted learning environment.

Economic Development

Knowledge Network's commissioning and licensing of original content helps B.C.'s independent production sector attract additional financing from provincial, national, and international sources. Through development funding and formal internships with colleges and universities, we reach out to new and emerging talent, providing unique opportunities for professional development in the television and new media workplace.

B.C. Content

Knowledge Network offers programs of direct relevance to British Columbians, cultivating dialogue and encouraging participation in our culturally diverse, vibrant, and dynamic province.

Viewer Supported, Viewer Focused

British Columbians contribute to the success of Knowledge Network. As a viewer-supported public broadcaster, we deliver significant, high-quality content that is informed by the interests of our audience.

Accessible and Commercial-free

Knowledge Network has mandatory carriage on cable and direct-to-home satellite. Most of our programs are also available for free viewing at Knowledge.ca and Knowledgekids.ca. Our programming has no interruptions, no commercial advertising and is closed captioned on-air and online.

How We Deliver Services

Knowledge Network delivers educational content to British Columbians via television through mandatory carriage on cable, direct-to-home satellite, IPTV services, and at Knowledge.ca, KnowledgeKids.ca and mobile platforms. We develop, prelicense, and commission filmmaker-driven creative documentaries for broadcast on Knowledge Network. We serve as a resource for independent producers across traditional and interactive media sectors for the creation of multi-platform content.

Governance

The corporate status of Knowledge Network is governed by the Knowledge Network Corporation Act of British Columbia.

Minister of Citizens' Services and Open Government

Honourable Ben Stewart

Board of Directors

Nini Baird, C.M., Chair

President and Chief Executive Officer

Rudy Buttignol

Senior Management

Tracey Balogh	Director of Human Resources
Murray Battle	Director of Independent Production and Presentation
Oliver Eichel	Director of Broadcast Operations
Jeffrey Lee	Director of Finance
Sarah MacDonald	Director of Business and Partnership
Glenna Pollon	Director of Government Relations and Communications
Lisa Purdy	Director of Knowledge Kids and BBC Kids
John Reid	Associate Director of Business Affairs
Ravi Singh	Director of Interactive

Knowledge Network holds two other designations that inform our organizational and business decisions:

1. Knowledge Network is licensed through the Canadian Radio-television and Telecommunications Commission (CRTC) to broadcast educational programming in British Columbia.
2. Knowledge Network is a registered charity, engaging in fundraising activities through our Knowledge Partners program. Funds raised support the acquisition and production of educational and engaging content from British Columbia and around the world.

Board of Directors

The Board of Directors of Knowledge Network are appointed by the Lieutenant-Governor in Council. The Ministry of Citizens' Services and Open Government is responsible for policy direction, while the Board is responsible for operational policy and setting the strategic direction of the organization. The Board also monitors performance based on the Province's planning and reporting principles. The Board delegates responsibility for the day-to-day leadership and management to the President and Chief Executive Officer. Knowledge Network governance practices are in compliance with Board Resourcing and Development Office Governance Guidelines. Knowledge Network's governance and policy information is available at Knowledge.ca/about/governance.

Governance Principles	How They Are Achieved
Ensure broad-based, relevant Board representation.	Recommend individuals from business, education, finance, law, new media, and other relevant disciplines.
Promote strategic macro-governance direction.	Work with management to ensure continuous improvement of service delivery.
Maximize value for money.	Operate by demonstrating effectiveness and efficiency in use of resources.
Listen to partners.	Seek and act on input from partners, stakeholders, and the provincial government.
Leverage best practices including the selection of performance measures and targets.	Support the CEO in the development, implementation, and evaluation of a Service Plan that meets goals and objectives set by the Board.

Knowledge Network Corporation Board of Directors (at March 31, 2013)

Board Members

Nini Baird, C.M.
(Vancouver)

Kevin Brown
(Prince George)

Beth Haddon
(Toronto/Vancouver)

Wendy Heskha
(Kamloops)

Debbie MacMillan
(Kelowna)

Sinclair Mar
(Victoria)

Sheila Orr
(Victoria)

Mitch Taylor
(Vancouver)

Marg Vandenberg
(Vancouver)

All Members

Board Committees

Chair, Board of Directors
Chair, Human Resources Committee
ex-officio Member, all Board Committees

Member, Community Outreach and Engagement Committee

Secretary, Board of Directors
Chair, Strategic Planning Committee
Member, Audit and Finance Committee

Chair, Community Outreach and Engagement Committee
Member, Audit and Finance Committee
Member, Strategic Planning Committee

Member, Strategic Planning Committee
Member, Fund Development and Partnership Committee
Member, Community Outreach and Engagement Committee

Chair, Governance Committee
Member, Community Outreach and Engagement Committee
Member, Audit and Finance Committee

Member, Fund Development and Partnership Committee
Member, Governance Committee
Member, Strategic Planning Committee

Vice-Chair, Board of Directors
Chair, Audit and Finance Committee
Member, Community Outreach and Engagement Committee
Member, Strategic Planning Committee

Chair, Fund Development and Partnership Committee
Member, Community Outreach and Engagement Committee
Member, Governance Committee

Human Resources Committee

Board Committees

There are six standing Committees that support the role of the Board in fulfilling its obligations and responsibilities to further the goals of Knowledge Network.

Audit and Finance Committee

The purpose of the Committee is to ensure the audit process, financial reporting, budgets, and risk management systems are reliable, efficient, and effective.

Community Outreach and Engagement Committee

The purpose of the Committee is to provide input, recommendations and feedback on the various outreach and engagement initiatives undertaken by Knowledge Network in order to strengthen our relationship with our viewers and to share our story with them.

Fund Development and Partnership Committee

The purpose of the Committee is to identify new sources of revenue and serve as ambassadors and strategists for fund development activities and for the development of external relationships.

Governance Committee

The purpose of the Committee is to ensure Knowledge Network develops and implements governance objectives and policies.

Human Resources Committee

The purpose of the Committee is to ensure Knowledge Network's compensation and human resource philosophies and strategies are in keeping with our mission, values, and key goals as well as our legislative and government policy guidelines and requirements.

Strategic Planning Committee

The purpose of the Committee is to ensure Knowledge Network's strategic direction meets the public policy objectives identified in the Knowledge Network Corporation Act.

Report on Performance Goals

Four goals from our strategic plan *Sustainable, Improving Service* direct us in our planning to build long-term stability for Knowledge Network while improving our service for British Columbians. The following report identifies strategies and measures performance against our goals and targets from our 2012/13 to 2014/15 Service Plan.

Goal #1: Diversify and grow revenue through entrepreneurial and philanthropic partnerships.

Strategies

Entrepreneurial

1. Maintain and improve Canadian subscription children's channel.
2. Secure one major media partnership sponsor annually by developing and marketing a comprehensive sponsorship package that includes an enhanced set of integrated benefits and by capitalizing on our new website and the increased traffic that will result.
3. Leverage our new customer relationship management system, enabling online account management for our Partners and providing a new channel to increase our marketing and fundraising.

Philanthropic

1. Implement online fundraising program by leveraging new functionality provided by the constituent relationship management database (CRM).
2. Implement major giving program focusing on corporate philanthropy.
3. Improve donor acquisition and stewardship by leveraging marketing activities to connect with donors and prospective donors.

Goal #2: Deliver our broadcast service on multiple digital platforms to engage our audience anytime, anywhere.

Strategies

1. Expand streaming video on the internet with content licensed from external sources.
2. Launch a High Definition (HD) channel.
3. Continue to deliver Knowledge Network to an expanding number of mobile platforms.

Goal #3: Create original content for multi-platform delivery through partnerships with independent producers.

Strategies

1. Continue the enhanced level of financial commitment to multi-platform independent content development and production at Knowledge Network over three years.
2. Expand sources of financing available to producers, thereby leveraging Knowledge Network's investment, by strengthening relationships with Canadian public and private-sector funding bodies and international and domestic broadcasters.
3. Establish Knowledge Network as a player in digital content production, to facilitate creative and business partnerships between traditional producers and new media producers.

Goal #4: Increase awareness by marketing the Knowledge Network brand.

Knowledge Network will strengthen its position as British Columbia's valued public educational broadcasting service by building new relationships with communities and opinion leaders all across the province.

Strategies

1. Complete implementation of an integrated marketing plan aligned with the unique marketing needs of each business area.
2. Communicate with B.C.'s various communities and opinion leaders through public speaking opportunities and participation in panels, forums, town halls, and other local events.

Benchmarks

The public policy objectives for Knowledge Network are very specific to the needs and circumstances of the province of British Columbia. Each of the four public educational broadcasters in Canada has business models based on their relationships with their respective provincial governments and the conditions of their federal broadcast licenses. Consequently, Knowledge Network's performance is benchmarked internally against past performance. We continue to research a broad range of external benchmarks within the broadcast and not-for-profit sector, both nationally and internationally.

Knowledge Network has 12 performance measures supporting four strategic goals. Using industry standard broadcast measurement tools (including audience ratings and broadcast inventory, scheduling and reporting software), we have established internal benchmarks for all of our performance measures.

Goal #1: Diversify and grow revenue through entrepreneurial and philanthropic partnerships.

A challenging economic climate coupled with negative trends in charitable giving compel us to find innovative and creative ways to finance our operation and ensure a sustainable future. We can fuel our growth by leveraging internal technological resources in new ways by fostering the spirit of entrepreneurship in the organization and by redefining how we engage with our donors.

Measures

Knowledge Partner Donations

We measure this activity by tracking Knowledge Partner donations recognized through our financial software system and donor database.

Endowment Investment Revenue

Due to current global economic conditions, our measurement for investment revenue is based on an average return of 2%.

Media Partnerships Revenue

We measure this activity annually by the revenue generated through schedule underwriting and sponsorship initiatives.

Revenue Generated by Entrepreneurial Initiatives

Overall revenue generated from entrepreneurial initiatives is tracked annually through our financial software system.

Performance Measures	2010/2011 Actuals	2011/2012 Actuals	2012/2013 Forecast	2012/2013 Actuals	2013/2014 Forecast	2014/2015 Target	2015/2016 Target
KNOWLEDGE PARTNERS DONATIONS	\$2.7 M	\$2.97 M	\$2.9 M	\$3.4 M	\$3.4 M	\$3.4 M	\$3.4 M
ENDOWMENT INVESTMENT REVENUE	\$8,360	\$10,463	\$12,000	\$12,433	\$12,000	\$14,000	\$16,000
MEDIA PARTNERSHIPS REVENUE	\$17,230	\$24,030	\$25,000	\$64,936	\$30,000	\$35,000	\$40,000
REVENUE GENERATED BY ENTREPRENEURIAL INITIATIVES	\$110,175	\$150,000	\$350,000	\$350,000	\$500,000	\$600,000	\$600,000

Performance Summary

Knowledge Partners contributed a record \$3.4 million, which is 11% above what was donated last year. We attribute this growth to a number of factors. Our distinctive programming offered in a commercial-free environment on-air and online continued to improve. Donors switching from yearly to monthly donations also supported growth. Other successful initiatives included email as a new solicitation method, the implementation of new tactics for recovering lapsed donors, and a new contest during the winter 2013 campaign.

In 2012/13, the Knowledge Endowment exceeded \$1.3 million thanks to generous donations and estate gifts. Our Endowment Investment Revenue recovered slightly as a result of fixed rate investments made with the goal of conserving capital.

We exceeded the forecast for Media Partnerships Revenue by broadcasting messages in the public interest, including the B.C. Securities Commission's Be Aware of Investment Fraud campaign and the City of Vancouver's Make Memories Not Garbage campaign.

In 2012/13, income was generated from the operation of BBC Kids, our co-venture with BBC Worldwide to operate a Canadian subscription children's channel.

Goal #2: Deliver our broadcast service on multiple digital platforms to engage our audience anytime, anywhere.

Importance of Measures

In the midst of significant technological change within our industry and among consumers, Knowledge Network will leverage its digital broadcast platforms to ensure our content is available to our audiences when they want it and where they want it.

Average Weekly Reach (TV Audience)

We measure average weekly reach annually for Knowledge Prime (6pm to 12pm) and Knowledge Kids (6am to 6pm) using data from BBM Canada, the national provider of TV, radio and consumer information. Average weekly reach is the unduplicated number of people aged two years or older viewing at least one minute of programming in British Columbia. BBM Canada estimates are based on 95% confidence interval.

Web Visits

We measure Knowledge Network web usage in British Columbia annually. We track visits or sessions to our website, defined as a period of interaction between a visitor's browser and a particular website, ending when the browser is closed or shut down.

Web Page Views

A page view is defined as a view of a page on a site that is being tracked by a tracking code. If a visitor hits reload after reaching the page, this will be counted as an additional page view. If a user navigates to a different page and then returns to the original page, a second page view will be recorded as well.

Total Hours on Site

We track this measure using a customized report that measures the total aggregate time spent on Knowledge.ca and KnowledgeKids.ca by all visitors in B.C. in hours.

Performance Measures		2010/2011 Actuals	2011/2012 Actuals	2012/2013 Forecast	2012/2013 Actuals	2013/2014 Target	2014/2015 Target	2015/2016 Target
AVERAGE WEEKLY REACH (TV AUDIENCE)	Knowledge Primetime	1.165 M	1.076 M	1.080 M	1.009 M	1.080 M	1.080 M	1.080M
	Knowledge Kids	529,000	489,000	489,000	365,000	375,000	385,000	400,000
WEB VISITS	Knowledge.ca	39,412	483,861	490,000	645,355	775,000	800,000	825,000
	KnowledgeKids.ca	58,896	164,250	168,000	477,237	445,000	475,000	500,000
	TOTAL	453,023	648,111	658,000	1.122 M	1.22 M	1.275 M	1.325 M
WEB PAGE VIEWS	Knowledge.ca	1.433 M	1.712 M	1.715 M	2.249 M	2.55 M	2.6 M	2.65 M
	KnowledgeKids.ca	125,472	403,177	406,000	929,951	935,000	937,000	939,000
	TOTAL	1.558 M	2.115 M	2.121 M	3.178 M	3.485 M	3.537 M	3.589 M
TOTAL HOURS ON SITE	Knowledge.ca	40,828	112,916	115,000	188,386	215,000	220,000	225,000
	KnowledgeKids.ca	N/A	50,827	52,000	138,105	140,000	142,000	144,000
	TOTAL	40,828	163,743	167,000	326,491	355,000	362,000	369,000

Performance Summary

Audience growth on Knowledge Network's web platforms was significant, with both Knowledge.ca and Knowledgekids.ca exceeding expectations for the year. We attribute this success to our diverse range of programming available for free viewing at Knowledge.ca and KnowledgeKids.ca. To deepen our engagement with audiences of all ages, Knowledge Network programming was made available on smartphones and tablets.

Our commercial-free offering of creative documentaries, arts and culture, drama and children's programs continued to inform and inspire British Columbians. The 12-part series *The Party's Over: How the West Went Bust* premiered in winter 2013. The collection of films looked at the current economic situation in the world, going behind the news headlines to demystify what happened and where we might be headed. B.C. filmmaker Dianne Whelan shared her story of spending 40 days at Mount Everest base camp capturing the ambitions and emotions of the climbers. Her film, *40 Days at Base Camp*, had its North American premiere on Knowledge Network.

East Is East, our anthology series dedicated to programming about Asia Pacific, garnered historically high audiences in 2012/13. *Secrets of Tang Treasure Ship*, a documentary painting a vivid picture of 9th century Tang China, had significant viewership of close to 100,000. While the forecasts for average weekly reach on television fell short of target, we remained the fourth watched network in British Columbia with a strong 3.9% audience share for our primetime schedule (BBM Canada Fall 2012, Vancouver Extended Market).

Goal #3: Create original content for multi-platform delivery through partnerships with independent producers.

Importance of Measures

Knowledge Network will continue to play a vital role in supporting the development and production of multi-platform content at a time when the industry is challenged by unprecedented economic pressures. By building and strengthening key relationships, Knowledge Network can provide access to funding from the Canada Media Fund to independent producers across traditional and interactive media sectors.

Percentage of all Knowledge Network Prelicenses that have a Multi-platform Component

We track this measure through projects that are funded by and meet the criteria outlined by the Canada Media Fund. Prelicenses refer to the investment Knowledge Network makes in the development, production and broadcast of original Canadian programming.

Budget Commitment to Independent Production

Budget pressures continue to be a challenge; however, Knowledge Network is committed to maintaining the same level of funding for independent production of original content for television, web and mobile platforms.

Performance Measures	2010/2011 Actuals	2011/2012 Actuals	2012/2013 Forecast	2012/2013 Actuals	2013/2014 Target	2014/2015 Target	2015/2016 Target
PERCENTAGE OF ALL KNOWLEDGE NETWORK PRELISENCES THAT HAVE A MULTI-PLATFORM COMPONENT	44%	95.7%	70%	84.5%	75%	80%	85%
BUDGET COMMITMENT TO INDEPENDENT PRODUCTION	\$850,000	\$850,000	\$850,000	\$1 M	\$850,000	\$850,000	\$850,000

Performance Summary

We exceeded the forecast for Percentage of all Knowledge Network Prelicenses that have a Multi-platform Component due to our investments in multi-platform content including *The Emergency Room*, *Foncie's Corner*, and *Oil Sands Karaoke*.

We exceeded the forecast for Budget Commitment to Independent Production due to our investments in original B.C. content including Knowledge Network commissions *Do You Really Want to Know?*, *High Five: A Suburban Adoption Story*, *Aftermeth*, *Blood Relative*, and *Coast Modern*.

Goal #4: Increase awareness by marketing the Knowledge Network brand.

Importance of Measures

Knowledge Network will strengthen its position as British Columbia's valued public educational broadcasting service by building new relationships with communities and opinion leaders all across the province.

Public Awareness of Knowledge Network as a Public Broadcaster in B.C.

We conduct research each spring using the Ipsos Online Omnibus Survey to measure awareness of Knowledge Network in British Columbia.

Total Number of Knowledge Magazines Circulated in B.C.

Our Knowledge Magazine is an important vehicle for extending the Knowledge Network brand across B.C. A benefit to Knowledge Partners, it is distributed to donors six times a year.

Performance Measures	2010/2011 Actuals	2011/2012 Actuals	2012/2013 Forecast	2012/2013 Actuals	2013/2014 Target	2014/2015 Target	2015/2016 Target
PUBLIC AWARENESS OF BRITISH COLUMBIA'S KNOWLEDGE NETWORK	25%	26%	28%	25%	27%	29%	31%
TOTAL NUMBER OF KNOWLEDGE MAGAZINES CIRCULATED IN B.C.	192,000	190,000	175,000	236,050	190,000	200,000	200,000

Performance Summary

This year we once again included an aided brand awareness question as part of the omnibus survey. When prompted, awareness of Knowledge Network in B.C. is at 76%. When asked top of mind/unaided, one-quarter of the province - 25% - is aware of Knowledge Network. It has been a challenge to make progress on the unaided brand awareness question using a consumer-focused survey. As a result, we will be revising the brand awareness performance measure to support the scope of our marketing efforts.

We continued to visit a number of communities across the province in 2012/13, including Cranbrook, Kamloops, Nelson, North Vancouver, Powell River, Surrey, Victoria and White Rock. The Knowledge Magazine continues to be an important print vehicle for extending our brand and complementing our online presence. We exceeded our forecast for magazine circulation due to an increase in our donor base as well as a very successful direct mail donor recovery campaign. We also held donor and public events where Knowledge Magazines were available.

Significant Risks and Opportunities

Knowledge Network will launch a High Definition (HD) service in British Columbia in September 2013. The transition to HD is vital to remaining competitive and relevant with viewers in British Columbia. The new HD servers and equipment were funded in part through revenues from BBC Kids, our co-venture with BBC Worldwide. Within the next three years, upgrades will be required to our digital equipment installed in 2008 as part of our transition to a digital broadcast facility.

Progress Against Government Letter of Expectations

Below are the specific directions outlined in the Government Letter of Expectations and our actions in fiscal 2012/13.

Specific Direction To The Corporation	Knowledge Network Action Plans
1. Make further progress toward the goals described in KNC's strategic plan, which was submitted to the Ministry on July 25, 2007, with revisions provided August 25, 2008, and September 14, 2009. Specific to these goals, KNC will: a) Increase efforts to raise self-generated revenues. b) Continue efforts to deliver broadcasting services on multiple digital platforms to reach a wider audience. c) Continue to develop original television and internet programming that informs, engages and educates British Columbians by collaborating with British Columbia's independent media production sector. d) Build upon recent achievements in branding Knowledge by marketing the broadcaster as the province's only independent, commercial-free educational media service. 2. Work to include public literacy television and internet programming focusing on the challenges facing the province, including: a) Seniors' demographic shifts;	Maintained and improved BBC Kids, our co-venture with BBC Worldwide to operate a Canadian subscription children's channel. Engaged in a number of successful media partnerships with messages in the public interest, including the B.C. Securities Commission's Be Aware of Investment Fraud campaign and the City of Vancouver's Make Memories Not Garbage campaign. Leveraged our new customer relationship management system, enabling online account management for our Partners, and providing a new channel to increase our marketing and fundraising. Programming was made available any screen, anytime on mobile devices. We started building Knowledge Network's High Definition (HD) channel. The new service will launch from our digital broadcast facility in Burnaby, B.C. in September 2013. Engaged B.C. independent production and new media sectors through development, commissions, prelicenses and outreach. Highlights include: Aftermeth, Blood Relative: Mumbai's Forgotten Children, Carts of Darkness, Coast Modern and Do You Really Want to Know? A new suite of Knowledge Kids animated station IDs featuring Luna, Chip and Inkie was commissioned to a British Columbian independent production house. Foncie's Photos, a multi-platform project, was commissioned featuring the story and photos of Foncie Pulice, the Vancouver street photographer who for 45 years took candid shots of people strolling Granville Street. Our ongoing investment in original Canadian content resulted in B.C. independent producers having access to over \$1 million from Knowledge Network's Canada Media Fund allocation. We supported the DOXA Film Festival, the Kamloops Canadian and International Film Festival, the South Asian Film Festival and the Vancouver International Film Festival. We hosted a filmmakers' workshop in Kamloops, B.C. We introduced British Columbia into our branding - British Columbia's Knowledge Network. As part of our road tour, we held special events in a number of B.C. communities, including Cranbrook, Kamloops, Nelson, Powell River, Surrey, and White Rock. Knowledge Partner events were held in North Vancouver and Victoria. Continued to offer commercial-free programs for boomers and seniors who are underserved by other broadcasters in B.C.'s mainstream television market. Highlights include: Norm - A devoted sister vows to keep her aging brother at home despite his Down syndrome condition and his growing symptoms of Alzheimer's disease. Ping Pong - Eight pensioners with 703 years between them compete in the World Over-80s Table Tennis Championships in Inner Mongolia. Solar Mamas - The Barefoot College in India takes uneducated middle-aged women from poor communities and trains them to become solar engineers, bringing power and jobs to their communities. The Topp Twins: Untouchable Girls - The remarkable story of New Zealand's favourite singing, dancing and yodeling twin sisters.

Specific Direction To The Corporation	Knowledge Network Action Plans
b) Early learning initiatives;	Programming on Knowledge Kids and Knowledgekids.ca supports early learning development. Programs with a literacy focus included Martha Speaks, Numberjacks and Word World. We commissioned Which Way Back, our first-ever Knowledge Kids picture book featuring our kids' characters Luna, Chip and Inkie. The book by B.C. writer Michael Mayes and B.C. illustrator Rory O'Sullivan, will be distributed by B.C.-based commercial publisher Figure 1.
c) Asian trade and cultural awareness;	Highlights include: Blood Relative: Mumbai's Forgotten Children – Follows the remarkable story of Indian activist Vinay Shetty, who is fighting to save two children dying from the rare disease Thalassemia Major. Bombay Railway – A train driver, an illegal hawker and a homeless child in the train station reflect the dreams and struggles of the people of Mumbai. Education! Education! – China's economic boom and talk of the merits of hard work have created an expectation that to study is to escape poverty. But these days, China's education system does not necessarily lead to job offers. Giant Buddha – Follows Chinese scientists in their quest to save China's Leshan Giant Buddha – the largest stone sculpture in the world – in Sichuan province Guge: Lost Kingdom of Tibet – Responsible for the renaissance of Buddhism more than a thousand years ago, this mighty empire had one of the richest cultures of its time. I.M. Pei: Building China Modern – Follows Pei on his journey to define China's architectural vision. Indian Hospital Train – A very special train brings medical assistance and hope to people in rural areas of India. Inside Sumo's Ultimate Clash – Looks at the world of Sumo from the Japanese big time to the amateurs in America. Made in China – A behind-the-scenes look at six foreign contestants as they prepare for China's most popular TV talent show. Mysterious Hanging Coffins of China – In the remote hills of southwest China, a team of archaeologists uncover one of the greatest mysteries in all of China – the hanging coffins of the mysterious tribe known as the Bo people. Secrets of the Tang Treasure Ship – Historians have long speculated that thousands of wooden ships plied a maritime Silk Route from the Middle East to China, but time and the deep ocean have destroyed any evidence until now.
d) Health care sustainability;	Highlights include: Do You Really Want to Know? – Follows three families who have been confronted with the difficult decision of whether or not to be tested for Huntington's disease. Forgetful, Not Forgotten – Filmmaker Chris Wynn, whose father was diagnosed with early-onset Alzheimer's, takes us on a deeply moving journey that juxtaposes his father's life with his own fear of facing the same fate. Lust for Life – Heather Leach battles with ill-health, despair and depression, but emerges to find a new way to live a cheekier and more fulfilling life. The Market – Through converging stories, this documentary looks at the global trade in human organs from India to Nanaimo, B.C. Under Our Skin – Exposes the hidden epidemic of Lyme disease and reveals how our health-care system is failing to address one of the most serious illnesses of our time. Our most ambitious, multi-platform commissioned project ever went into production, tentatively titled The Emergency Room. The six-part documentary series and interactive website shares the stories of women and men who support, manage and work in the emergency department at Vancouver General Hospital. The series will engage audiences through real-life stories in emergency health care and the role it plays in our day-to-day lives. The world premiere is scheduled for winter 2014.

Specific Direction To The Corporation	Knowledge Network Action Plans
e) First Nations communities, culture and issues;	Highlights include: A Sorry State – Filmmaker Mitch Miyagawa has the most apologized-to family in Canada, but he questions what apologies mean to his parents, his young children and his country. Kinnigait: Riding Light into the World – The story of how the isolated Inuit community of Cape Dorset became a renowned centre for Inuit art. Reel Injun – Cree filmmaker Neil Diamond takes an entertaining and insightful look at the Hollywood Indian, exploring the portrayal of North American natives through a century of cinema. The Making of a Haida Totem Pole – Follows renowned carver Don Yeomans as he creates a Haida totem pole for Vancouver International Airport. T'lina: The Rendering of Wealth – Every spring the people of the Kwakwaka'wakw Nation harvest eulachon, a small fish from which they extract t'lina, an oil that occupies a central place in their traditional culture and economy.
f) Challenges facing the environment, including climate change;	Highlights include: Architects of Change – They're a new kind of pioneer: men and women around the world who have created models of sustainable economic development that counteract the threats weighing against our future. Blue Planet – The ocean and many of its inhabitants, such as the blue whale, remain an unexplored mystery. Dirt! The Movie – The story of Earth's most valuable and underappreciated source of fertility, from its miraculous beginning to its crippling degradation. Eco-Engineering: Green Skyscrapers – 'Green' towers are transforming our cities and redefining our urban landscapes. Extreme Ice – Acclaimed photographer James Balog teams with scientists to document the runaway melting of arctic glaciers. Planet Earth – This series takes an unforgettable journey through the daily struggle for survival in Earth's most extreme habitats. Water on the Table – Canadian activist Maude Barlow tries to protect water from privatization.
g) Economic issues.	Following the success of <i>Mad, Mad Money: When Greed and Fear Rule the Market</i> (Knowledge Network's 2011 series examining the financial crisis), we presented The Party's Over: How the West Went Bust, a new 12-part series exposing the realities of the West's economic predicament. Highlights include: Goldman Sachs: The Bank That Runs the World – An insider's look into Goldman Sachs, the New York-based investment bank whose secret inner workings played a key role in the financial collapse of 2008. Money, Power and Wall Street – As Wall Street innovated, its revenues skyrocketed, and financial institutions of all stripes tied their fortunes to one another. Park Avenue: Money, Power and the American Dream – Oscar-winning filmmaker Alex Gibney explores how the classic "American Dream" of being able to achieve greatness no matter your background is becoming more and more elusive as the rich are increasingly able to influence laws and policy to their favour. The Great Euro Crash – Robert Peston questions whether the dream of an economically united Europe can survive. The Party's Over: How the West Went Bust – BBC Business Editor Robert Peston suggests that that 2008 financial crash was just a symptom of the seismic economic shift that was on its way – the start of an era of austerity caused by the rebalancing between the West and the emerging superpower economies.

Specific Direction To The Corporation	Knowledge Network Action Plans
3. Explore ways to expand opportunities for students through collaboration with public post-secondary institutions offering media, digital arts and other relevant programs.	Rudy Buttignol participated in the School of Business and Economics Dean's Speaker Series at Thompson Rivers University. Recruited four interns from Capilano University's Interactive Design Program. Engaged in a partnership with Emily Carr's Masters of Digital Media program to enhance the Knowledgekids.ca website.
4. Build on the foundations of quality documentary programming by collaborating with partners, including the Ministry, to explore options to showcase and encourage public dialogue.	Partnered with the Ministry of Community and Cultural Development in the commission of Take Me Home, a series of short films designed to celebrate B.C. through its prominent artists and other luminaries. Partnered with the Labour Heritage Centre and the Vancouver Foundation in the commission of Working People: A History of Labour in B.C.

Financial Summary 2008–2016 (Reported in '000)

	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Budget	Budget Variance	Year Variance	2013/14 Target	2014/15 Target	2015/16 Target
Provincial Operating and Other Grants	8,434	6,972	6,504	6,410	6,410	6,410	0	0	6,260	6,260	6,260
Donations and Sponsorships	3,047	2,351	2,902	3,160	3,439	2,925	514	279	3,041	3,165	3,285
Other Revenue	441	97	117	157	306	470	(164)	149	620	720	800
Amortization of Deferred Contributions	468	431	442	461	353	281	72	(108)	281	281	281
Total Revenue	12,391	9,850	9,965	10,187	10,508	10,086	422	321	10,202	10,426	10,626
Salaries and Benefits	4,046	3,875	3,936	4,032	4,176	4,028	148	144	4,068	4,068	4,068
Programming and Presentation	1,416	533	596	582	584	652	(68)	1	575	575	575
Broadcast Platforms and Corporate IT	688	778	868	785	864	879	(15)	79	800	800	800
Marketing and Development	1,796	832	1,005	963	1,089	1,107	(18)	126	906	1,018	1,015
General	3,088	31	152	102	82	110	(29)	(21)	110	110	110
Administration	464	542	459	452	375	172	202	(77)	447	447	447
Total Expenses	11,499	6,591	7,016	6,917	7,169	6,949	220	252	6,907	7,019	7,016
Amortization of Capital Assets and Broadcast Rights	2,141	2,499	2,912	2,959	3,058	2,822	236	98	3,295	3,407	3,610
Net Income or (Loss)	(1,249)	760	37	311	281	315	(34)	(30)	-	400	-
Capital Assets and Broadcast Rights Acquired	4,319	3,151	2,497	2,479	4,312	4,088	224	1,832	3,365	3,010	3,108
Income from Subsidiary	-	-	-	1,310	1,430	1,454	(23)	120	1,450	1,450	1,450
Expenses from Subsidiary	-	-	157	756	836	1,196	(359)	81	1,050	1,050	1,050
Subsidiary Net Income or (Loss)	-	-	(157)	555	594	258	336	(39)	400	400	400
Total Debt	-	-	-	-	-	-	-	-	-	-	-
Retained Earnings	2,367	1,222	1,700	2,172	2,960				3,360	4,160	4,560

NOTE: The corporation's treatment of broadcast rights shown in the table above is consistent with that established in prior year financial statements. For Public Sector entities specifically, GAAP no longer allows for the capitalization of intangible assets such as broadcast rights. To ensure the ongoing usefulness of the financial statements to users, the corporation will continue to capitalize broadcast rights and amortize them into income as matching revenue is earned.

Management Discussion and Analysis

Increased charitable donations, growth in media partnerships and revenues from BBC Kids contributed to Knowledge Network Corporation ending the fiscal year with \$3.7 million in self-generated revenues in 2012/13. These revenues, combined with our Provincial Government revenue of \$6.4 million, enabled us to carry out our public mandate. New capital investments will soon be required to replace aging broadcast equipment installed in 2008. We will be seeking guidance from our Ministry on how to address this priority within the next three years.

Details on our Financial Summary 2008-2016 are provided below.

Provincial Operating and Other Grants

No variances.

Donations and Sponsorships

During 2012/13, Knowledge received \$514k of donations more than budgeted, due to very successful pledge campaigns. This also resulted in a positive variance of \$279k over 2011/12 donations.

Other Revenue

The year variance of (\$164k) is due to consolidation. Only 50% of channel management fees were included in the actuals whereas the full amount was budgeted.

The year variance of \$149k is a result of increased channel management fees earned.

Amortization of Deferred Contributions

The budget variance of \$72k is due to the recognition of revenue to offset amortization costs for commissions and original productions that were not budgeted.

The year variance of (\$108k) is due to the Sisters In Arms production amortized in 2011/12 and adjustments made during 2011/12.

Salaries and Benefits

The budget variance of \$148k, and year variance of \$144k, are due to a year-end entry to affect staffing changes.

Programming and Presentation

The budget variance of (\$68k) pertains to production of five branded strand openings budgeted as expenses, but actually capitalized as video assets during 2012/13.

Broadcast Platforms and Corporate IT

The budget variance of (\$15k) is primarily due to costs of producing HD promos less than budget.

The year variance of \$79k pertains to the redesign of the Knowledge.ca website, which was undertaken during fiscal 2012/13.

Marketing and Development

The year variance of \$126k is due to these activities:

- Network re-branding	47,226
- Software support costs for new donor management system	30,439
- Annual fee for viewership measurement services	12,923
- Implementing new marketing plan	18,387
- Magazine printing and shipping costs	16,954
	<u>125,929</u>

General

The budget variance of (\$29k) was primarily a result of contingency budgets that were not allocated for expenses.

The year variance of (\$21k) is due to costs incurred during 2011/12 to vacate building space and return it to landlord.

Administration

The budget variance of \$218k was a result of:

- Reduced building operating costs	(56,534)
- Reduced operating costs in the President's Office	(16,025)
	<u>(72,559)</u>

The year variance of (\$77k) is due to:

- Reduced building operating costs	(70,967)
- Reduced operating costs throughout organization	(6,033)
	<u>(77,000)</u>

Amortization of Capital Assets and Broadcast Rights

The budget variance of \$251k is due to:

- Depreciation expense on tangible assets greater than budget	19,078
- Depreciation on broadcast rights greater than budget	232,332
	<u>251,410</u>

The year variance of \$114k is due to:

- Depreciation expense on tangible assets less than last fiscal	(42,455)
- Depreciation on broadcast rights greater than last fiscal	156,512
	<u>114,057</u>

Capital Assets and Broadcast Rights Acquired

The \$61k budget variance, and the \$1,070k year variance, are both due to new British Columbian commissioned productions nearing completion in 2012/13: Working People: A History of Labour in B.C., Emergency Room, and Take Me Home.

Income from Subsidiary

The budget variance of (\$47k) is due to subscription revenues being slightly lower than budget. The year variance of \$96k is due to subscription revenue growth over previous year.

Expenses from Subsidiary

The budget variance of \$52k, and year variance of \$334k, are due to increased amortization costs for the broadcast rights that were acquired over the first two years of operations.

Subsidiary/Operating Segment Summary Information

Knowledge-West Communications Corporation (KWCC) was incorporated in 1981 and is owned in part by Knowledge Network Corporation. KWCC owns and operates BBC Kids, a Canadian subscription children's channel. The CRTC approved KWCC's acquisition of assets for BBC Kids in April 2011. BBC Kids is a commercial-free service reinforcing the values of both Knowledge Network Corporation and the BBC. KWCC financial results are consolidated under Knowledge Network Corporation's audited financial statements.

Knowledge-West Communications Corporation Board of Directors

Nini Baird, C.M.	Chair
Mitch Taylor	Vice-Chair
Rudy Buttignol	Director
Jeffrey Lee	Secretary and Financial Officer
Ann Sarnoff	Director

Senior Management

Rudy Buttignol	President of BBC Kids
Lisa Purdy	Director of Knowledge Kids and BBC Kids

For more information on BBC Kids, visit bbckids.ca

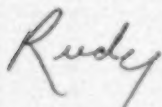
Knowledge Network Supporters

On behalf of Knowledge Network Corporation, I would like to acknowledge and thank the Government of British Columbia for its enduring support. On this solid foundation, we have been empowered to build a strong network of supporters all across the province, connecting with individuals, organizations and communities.

In 2012/13, donations from our 38,000 Knowledge Partners helped us bring British Columbians 860 hours of new and outstanding commercial-free programs from Canada and around the world. We are truly grateful for their encouragement and financial support.

Generous bequests and estate gifts to the Knowledge Endowment also continued to grow. These contributions will go a long way to ensuring that future generations of British Columbians will continue to have access to unique and high quality commercial-free programming.

Thank you for supporting public broadcasting in British Columbia.



Rudy Buttignol
President and CEO
Knowledge Network Corporation



Rudy Buttignol, President and CEO

Thanks to all our Knowledge Partners.
While space does not permit listing all 38,000 Partner names, we would like to acknowledge the generous support of our Leadership Circle supporters.

Leadership Circle

Benefactors (\$3,000 - \$4,999+)

Alan Burns and Wen-Lin Sun
Susan Calne CM
Mr. H. Les Cowley
P. Delville-Pratt and E. Gledden
Dr. Sydney Friedman
Scott Poole and Laurie Kelley
Diana Whittall
Anonymous (6)

Patrons (\$1,200 - \$2,999)

Thomas and Catherine Adair
Karl-Heinz Blank
Jim and Kathryn Bray
Vera Cunliffe
In Memory of Shirley Ann Driscoll
Mr. Anthony and Mrs. W. Mary Hatcher

Ms. L.M. Leslie
Marna J. Leslie
David M. Letson
David Llewelyn Williams
Ruth A. Pearce
Shelagh Rogers
Mark and Jane Slater
Patricia Sollars
Mrs. Lorraine Stewart
Mrs. Terry Wilkinson
Alisa and Jim Wilson
Anonymous (19)

Ambassadors (\$600 - \$1,199)

Thomas and Catherine Adair
June Argyle
Mrs. Daphne Baldwin
Ms. Nini Baird
David Ball
Ken Birdsall
Joost Blom
Lori Broadfoot
Mr. and Mrs. Geoffrey W. Burkinshaw
Patrick A. and Margaret Burns
Rudy and Margie Buttignol
Dr. Michael J. Cavey
Carole Chambers and Paul Clemens
Charles Clapham

Sandra Clarke
Ted Coombes
Maurice and Tama Copithorne
Ms. Eva Cost
Mrs. Audrey C. Denison
Florence and Tom Dingle
Draimin-Haddon Endowment Fund
of Tides Canada Foundation
Jack Fisher
Juanita Frederickson
Rose Floyd
Jane and Larry Forster
W.A. Fudge
Neville and Jill Gibson
George and Lee Grills
Donna J. Haley
W.D. Harper
Fred Herzog
Joanna Hindle
James H. Hummelen
Island Tides Publishing Ltd.
Lois and Gordon Jones
Dr. David F. Kellum
Gwen A. Kievill
Lae Family Foundation
G.H. Lynum
Ms. Sarah MacDonald
Mrs. Kathleen MacLennan
Dr. Cortlandt J.G. Mackenzie

Keith and Debbie MacMillan
 Irene Magill
 Timmie Marr
 Dr. K.H. and Mrs. M. Mascher
 Serge Maurice
 Margaret McKean
 Judith Miller by Tides Canada
 Foundation
 Allen Milne
 Anne and Ray Morris
 Terry and Margaret Morrison
 Phil and Rose Moore
 Louise Neveu and Don Loewen
 Clara Norgaard
 Mr. Jesse K. Oliver
 Mr. and Mrs. Hans-Karl Piltz
 Wayne and Delores Plenert
 Mr. Donald F. Pooley
 Nell Postans
 Audrey E. Ritchie
 Margaret Rodgers
 Sidney R. and Gladys L. Sharman
 Foundation through the
 Victoria Foundation
 Margaret Sheppard-Bromberg
 Ian and Jane Strang
 Anita L. Stuart
 Patrice and Richard Taylor
 Alan Tompson
 Wesley and Joan Wankel
 Tannis and Dave Wightman
 A. Wiley
 Mrs. Laura Williams
 John and Joan Willmer
 Dr. Peter Wm. and Rev. Ann E. Wood
 Linda J. Yardley
 Anonymous (79)

Knowledge Endowment

Legacy Gifts

Sidney R. and Gladys L. Sharman
 Endowed Fund
 Leon Judah Blackmore Foundation
 John Briggs
 Susan Calne CM
 Les and Isabel Cowley
 Gordon J. Davies
 Drs. Sydney and Constance Friedman
 Carol A. Gray
 Wayne and Leslie Ingram
 Merv and Elaine Johnson
 Ms. Linda Leslie
 Marna J. Leslie

Dr. Cortlandt J. G. Mackenzie
 Max Endowed Fund
 Margaret Rodgers
 Gordon Weese
 Terence Wolfe-Milner

Estate Gifts

Louis Adam
 Betty Barnes
 John P. Bell
 Frederick Bevis
 Wendle P. Bitz
 Paul Barry Crawford
 Dr. Gerald H. Ewing
 Steve and Eva Floris Endowed Fund
 Robert J. Foley
 Helmut Franke
 Robert Arthur Hamilton
 Joan Mary Hayward
 Sidney Maureen Heaney
 Katherine J. Heller
 Lucienne Hinton
 Kathleen M. Hughan
 James Young Johnstone
 Pauline Hilda Longstaff
 Kathleen R. Massey
 Margaret Betty Massey
 Stanley Robert Maxwell
 Margot Lynn McKenzie
 Cameron McLean
 Helen Florence Mooney
 Margaret Jean Paquin
 Joseph Riesz
 Hildegard Ryan
 Gilbert Sage
 Gunvantrai Shah
 Herbert Sorger
 Jan Wolf Wynand

In Memory

Patricia H. Wagner
 Sheila Mary Watson
 J. Stanley Wilkinson
 Ian Wilson

Future Will Bequests, Life Insurance and Trust Gifts

Dr. Anne Pomeroy Autor
 Dee M. Bailin
 Anna Bergen
 Mrs. Dierdree P. Blair
 Mary Britten
 D.G. and C.M. Brocklesby
 J. Brown
 Margaret E. Brown

Marino and Nelda Buttignol
 Nancy Chisholm
 Helen and Bent Christiansen
 Ms. Hilda Cliffe
 Ann Cooper
 Al Cushing and Linda Leon
 Maggy Davidson
 Dr. Jim Daems
 Ed and Dianne Darte
 Gloria Davies
 Susan I. Dodd
 Doug and Laurene Ebbett
 W.A. Fudge
 Mark and Diana Gillis
 Eric and Christine Greenwood
 Eric Holmes
 Judith G. Holmes
 Helen M. Houston
 James H. Hummelen
 Dr. Stewart and Mrs. Joyce Jackson
 Estelle and Michael Jacobson
 Elizabeth Kennett
 Joy Sarah Korman and Jasper
 Mrs. Lillian Lind
 Gale Ludvigsen
 Irene Magill
 Timmie Marr
 Eric and Freda E. McDermott
 Donna R. MacFarlane
 Valerie Melanson
 Anne Mercer
 Robert C. and Margaret Ruth Myers
 Paul Moritz
 J. Nayler
 L.R. Port
 Daphne Reid and Russell Karp
 Margaret Rodgers
 Anneliese Scholz
 E. Scotson
 F. Smith
 Shannon Steele
 June and Mike Stephen
 Chris and Patricia Treadwell
 Dena van Barneveld
 John J. Vanderlee
 G. and E. Van der Sman
 Richard von Kleist
 Harry and Patricia Wagner
 H.A. Washington
 Trudi Westermann
 Eileen Wright
 Anonymous (161)

Appendix A

2012/13 Audited Financial Statements

Management's Report

Management's Responsibility for the Consolidated Financial Statements

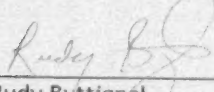
The consolidated financial statements have been prepared by management in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the consolidated financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements. A summary of the significant accounting policies is described in Note 2 to the consolidated financial statements. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements.

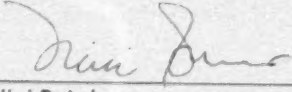
The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises these responsibilities through the Board. The Board reviews internal consolidated financial statements on a quarterly basis and external audited consolidated financial statements yearly. The Board also discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The external auditors, BDO Canada LLP, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of Knowledge Network Corporation and meet when required. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the consolidated financial statements.

On behalf of Knowledge Network Corporation



Rudy Buttignol
President and Chief Executive Officer



Nini Baird
Chair of the Board

May 17, 2013

Knowledge Network Corporation
Consolidated Financial Statements
For the year ended March 31, 2013

Knowledge Network Corporation
Consolidated Financial Statements
For the year ended March 31, 2013

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BDO Canada LLP
600 Cathedral Place
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Vancouver BC V6C 3L2 Canada

Independent Auditor's Report

To the Board of Directors of the Knowledge Network Corporation

We have audited the accompanying consolidated financial statements of Knowledge Network Corporation, which comprise the Consolidated Statement of Financial Position as at March 31, 2013 and the Consolidated Statements of Operations, Remeasurement Gains and Losses, Changes in Net Financial Assets and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of Knowledge Network Corporation as at March 31, 2013 and the results of its consolidated operations and its cash flows for the year then ended are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the financial statements.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



Basis of Accounting

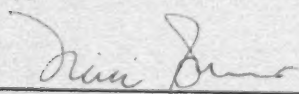
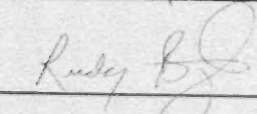
Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 17 to the consolidated financial statements discloses the impact of these differences.

BDO Canada LLP

Chartered Accountants

Vancouver, British Columbia
May 17, 2013

Knowledge Network Corporation
Consolidated Statement of Financial Position

	March 31, 2013	March 31, 2012
Financial Assets		
Cash (Note 3)	\$ 753,494	\$ 1,608,557
Accounts receivable	1,555,571	1,369,908
Portfolio investments (Note 3)	2,222,269	1,833,480
Income taxes receivable (Note 8)	70,596	-
	<u>4,601,930</u>	<u>4,811,945</u>
Liabilities		
Accounts payables and accruals	962,772	948,153
Income taxes payable	-	112,187
Deferred revenue, projects	1,027,449	988,342
Deferred contributions (Note 6 and 7)	2,408,959	2,761,875
	<u>4,399,180</u>	<u>4,810,557</u>
Net Financial Assets	<u>202,750</u>	<u>1,388</u>
Non-Financial Assets		
Broadcast rights (Note 5)	8,311,314	7,206,859
Tangible capital assets (Note 4)	2,641,797	2,809,837
Prepaid expenses	77,832	5,956
	<u>11,030,943</u>	<u>10,022,652</u>
Accumulated Surplus (Note 15)	<u>\$ 11,233,693</u>	<u>\$ 10,024,040</u>
Accumulated surplus represented by:		
Accumulated surplus from operations	\$ 11,136,923	\$ 9,964,445
Accumulated remeasurement gains and losses	96,770	59,595
	<u>\$ 11,233,693</u>	<u>\$ 10,024,040</u>
Commitments (Note 9)		
Approved on behalf of:		
	Chair of the Board	
	President and Chief Executive Officer	

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation
Consolidated Statement of Operations

	Budget (Note 16)	March 31, 2013	March 31, 2012
Revenue			
Province of British Columbia			
Operating grants	\$ 6,409,506	\$ 6,409,512	\$ 6,409,506
Donations and sponsorships	2,925,000	3,439,010	3,159,760
Specialty TV channel subscription fees	1,453,500	1,430,467	1,310,449
Amortization of			
deferred capital contributions (Note 6 and 7)	281,297	352,916	460,605
Other	470,000	306,295	157,221
	<u>11,539,303</u>	<u>11,938,200</u>	<u>11,497,541</u>
Expenses			
Programming and presentation	1,782,372	1,670,465	1,668,411
Marketing and development	1,966,050	1,947,395	1,735,865
Broadcast platforms and corporate IT	2,139,669	2,120,473	2,076,948
General	2,932,320	3,263,934	3,058,680
Administration	1,265,392	1,224,844	1,336,672
Specialty TV channel	1,195,719	836,378	755,529
	<u>11,281,522</u>	<u>11,063,489</u>	<u>10,632,105</u>
Annual surplus from operations excluding endowment contributions	257,781	874,711	865,436
Endowment contributions	200,000	297,767	208,644
Annual surplus from operations	457,781	1,172,478	1,074,080
Accumulated surplus from operations, beginning of year	9,964,445	9,964,445	8,890,365
Accumulated surplus from operations, end of year	<u>\$ 10,422,226</u>	<u>\$ 11,136,923</u>	<u>\$ 9,964,445</u>

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation
Consolidated Statement of Remeasurement Gains and Losses

<u>For the year ended March 31</u>	<u>2013</u>	<u>2012</u>
Accumulated remeasurement gains, beginning of year	\$ 59,595	\$ 136,983
Unrealized gains (losses) attributable to portfolio investments	62,805	(76,116)
Amounts reclassified to statement of operations:		
Realized loss on portfolio investments	(25,630)	(1,272)
Net remeasurement gains (losses) for the year	37,175	(77,388)
Accumulated remeasurement gains, end of year	\$ 96,770	\$ 59,595

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation
Consolidated Statement of Changes in Net Financial Assets

	Budget (Note 16)	March 31, 2013	March 31, 2012
Annual surplus	\$ 457,781	\$ 1,172,478	\$ 1,074,080
Remeasurement gains for the year	-	37,175	(77,388)
	<u>457,781</u>	<u>1,209,653</u>	<u>996,692</u>
Acquisition of tangible capital asset	(586,000)	(203,933)	(6,897)
Amortization of tangible capital assets	403,705	371,973	486,985
	<u>(182,295)</u>	<u>168,040</u>	<u>480,088</u>
Acquisition of broadcast rights	(3,502,000)	(4,048,898)	(3,253,807)
Amortization of broadcast rights	2,660,715	2,944,443	2,614,409
	<u>(841,285)</u>	<u>(1,104,455)</u>	<u>(639,398)</u>
Acquisition of prepaid expenses	-	(77,833)	(5,957)
Use of prepaid expenses	-	5,957	6,439
	<u>-</u>	<u>(71,876)</u>	<u>482</u>
Increase (decrease) in net debt	(565,799)	201,362	837,864
Net financial assets (net debt), beginning of year	1,388	1,388	(836,476)
Net financial assets (net debt), end of year	<u>\$ (564,411)</u>	<u>\$ 202,750</u>	<u>\$ 1,388</u>

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation
Consolidated Statement of Cash Flows

For the year ended March 31

2013

2012

Cash provided (used) by

Operating transactions

Annual surplus from operations	\$ 1,172,478	\$ 1,074,080
Items not involving cash:		
Amortization of deferred capital contributions	(352,916)	(460,605)
Amortization of capital assets	371,973	486,985
Amortization of broadcast rights	2,944,443	2,614,409
Change in non-cash operating working capital	(386,596)	(708,271)
	<u>3,749,382</u>	<u>3,006,598</u>

Financing transaction

Contributions received for broadcast rights	-	167,392
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Investing transaction

Redemption (purchase) of portfolio investments	(351,614)	188,104
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Capital transactions

Purchase of capital assets	(203,933)	(6,897)
Purchase of broadcast rights	(4,048,898)	(3,253,807)
	<u>(4,252,831)</u>	<u>(3,260,704)</u>

Increase (decrease) in cash for the year	(855,063)	101,390
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Cash, beginning of year	<u>1,608,557</u>	<u>1,507,167</u>
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Cash, end of year	<u>\$ 753,494</u>	<u>\$ 1,608,557</u>
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Change in non-cash operating working capital

Accounts receivable	\$ (185,663)	\$ (1,266,334)
Prepaid expenses	(71,876)	483
Payables and accruals	14,619	(46,945)
Income taxes receivable/payable	(182,783)	112,187
Deferred revenue, projects	<u>39,107</u>	<u>492,338</u>
	<u>\$ (386,596)</u>	<u>\$ (708,271)</u>

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation **Consolidated Schedule of Segment Disclosure**

	Programming and Presentation	Marketing and Development	Broadcast Platforms and Corporate IT	General	Administration	Specialty TV Channel	March 31, 2013 Consolidated	Budget (Note 16) Consolidated	March 31, 2012 Consolidated
Revenues									
Provincial operating and other grants	\$ -	\$ -	\$ -	\$ 6,409,512	\$ -	\$ -	\$ 6,409,512	\$ 6,409,506	\$ 6,409,506
Donations and sponsorships	-	3,439,010	-	-	-	-	3,439,010	2,925,000	3,159,760
Specialty TV Channel subscription fees	-	-	-	-	-	1,430,467	1,430,467	1,453,500	1,310,449
Amortization of deferred contributions	-	-	-	352,916	-	-	352,916	281,297	460,605
Other	-	-	-	306,284	-	11	306,295	470,000	157,221
	-	3,439,010	-	7,068,712	-	1,430,478	11,938,200	11,539,303	11,497,541
Expenses									
Salaries and benefits	1,086,882	858,441	1,256,238	124,472	850,033	149,715	4,325,781	4,226,620	4,128,975
Amortization of capital assets and broadcast rights	-	-	-	3,057,763	-	336,696	3,394,459	3,064,420	3,101,394
Purchased services	480,394	582,301	209,122	5,103	58,203	139,272	1,474,395	1,923,471	1,456,311
Supplies, shipping, minor software, maintenance	58,556	404,666	631,611	68,011	13,480	148,506	1,324,830	1,233,676	1,235,551
Travel, miscellaneous, other	44,633	96,855	2,502	8,585	84,661	13,268	271,504	558,335	297,535
Facilities operating costs, rental	-	5,132	-	-	218,467	-	223,599	275,000	300,152
Income taxes (Note 8)	-	-	-	-	-	48,921	48,921	-	112,187
	1,670,465	1,947,395	2,120,473	3,263,934	1,224,844	836,378	11,063,489	11,281,522	10,632,105
	\$ (1,670,465)	\$ 1,491,615	\$ (2,120,473)	\$ 3,804,778	\$ (1,224,844)	\$ 594,100	\$ 874,711	\$ 257,781	\$ 865,436

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation

Notes to the Consolidated Financial Statements

March 31, 2013

1. Nature of Operations

Knowledge Network Corporation (the "Corporation") was incorporated as a Crown corporation in 2009 under the Knowledge Network Corporation Act, a statute of the Province of British Columbia. In years prior to 2009, the organization operated as part of the Open Learning Agency under the Open Learning Agency Act.

The Corporation is British Columbia's public educational broadcaster across multiple platforms including television, web, and mobile. The principal source of funding is from the Ministry of Citizens' Services and Open Government.

The Corporation continues to be a registered charity under the provision of the Income Tax Act of Canada and is not subject to income taxes. The Corporation's 50% owned subsidiary is subject to income taxes.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

These consolidated financial statements are prepared by management in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. This Section requires that the consolidated financial statements be prepared in accordance with Canadian public sector accounting standards established by the Canadian Public Sector Accounting Board, except in regard to the accounting for broadcast rights and government transfers.

In addition, the Corporation has obtained approval to continue to capitalize broadcast rights, the impact of which is described in Note 17.

The consolidated financial statements reflects the assets, liabilities, revenue, expenses, and accumulated surplus of the reporting entity, which includes the proportionate consolidation of the Corporation's 50% owned subsidiary, Knowledge-West Communications Corporation ("KWCC"). Inter-entity balances and transactions have been eliminated on consolidation.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2013

2. Summary of Significant Accounting Policies (Continued)

(b) Revenue Recognition

Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Donations are recorded on the cash basis, but designated donations are deferred to match program expenditures.

Subscription fees are recognized in the period in which the transactions occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Interest and other revenues are recognized when earned.

(c) Tangible Capital Assets

Purchased tangible capital assets are recorded at cost. Equipment, furniture and fixtures are amortized over the estimated useful life on the declining balance basis at 10% to 30% per annum, computer software is amortized over the estimated useful life on the declining balance basis at 50%, and leasehold improvements are amortized over the term of the lease.

(d) Deferred Contributions for Capital Assets and Broadcast Rights

Funding received from the Province of British Columbia used for the acquisition of tangible capital assets is recorded as deferred contributions and is recognized as a recovery in the Statement of Operations equal to amortization charged on the assets purchased with the funding. This accounting treatment is not consistent with the requirements of Canadian public sector accounting standards which require that government transfers be recognized as revenue when approved by the transferor and eligibility criteria have been met, unless the transfer contains a stipulation that creates a liability, in which case the transfer is recognized as revenue over the period that the liability is extinguished. See Note 17 for the impact of this policy on these financial statements.

Broadcast rights are recorded at cost and amortized over the period the broadcast is authorized for (generally 4 to 6 years).

Knowledge Network Corporation

Notes to the Consolidated Financial Statements

March 31, 2013

2. Summary of Significant Accounting Policies (Continued)

(e) Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, portfolio investments and accounts payable and accruals. Financial instruments other than portfolio investments are recorded at cost or amortized cost. Portfolio investments are recorded at market value.

(f) Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the year then ended. Actual results could differ from those reported.

3. Cash and Portfolio Investments

(a) Cash

The Corporation's bank accounts are held at one Canadian chartered bank. Interest is earned at prime minus 1.95% and is paid on a monthly basis. As at March 31, 2013, the balance in US dollar account was \$15,112 (2012 - \$33,160).

The Corporation has a revolving demand credit facility bearing interest at prime plus 0.50% per annum. The available facility is to a maximum of \$500,000. As at March 31, 2013 and March 31, 2012 the Corporation did not utilize this credit facility.

(b) Portfolio investments

	March 31, 2013	March 31, 2012
Fixed income	\$ 378,930	\$ 450,303
Common shares	1,059,320	919,859
Mutual funds	685,799	411,795
Cash	89,524	51,523
Other	8,696	-
	<u>\$ 2,222,269</u>	<u>\$ 1,833,480</u>

Fixed income investments bear interest ranging from 2.63% - 8.00% (2012 - 3.15% - 8.00%) with maturities ranging from January 2017 to June 2041 (2012 - June 2013 to June 2041). Mutual funds consist of money market funds which are redeemable at any time.

Knowledge Network Corporation **Notes to the Consolidated Financial Statements**

March 31, 2013

4. Tangible Capital Assets

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2013
Cost							
Opening balance	\$ 871,317	\$ 2,816,560	\$ 2,396,439	\$ 365,755	\$ 13,072,150	\$ 37,695	\$ 19,559,916
Additions	9,228	185,892	-	-	8,813	-	203,933
Closing balance	880,545	3,002,452	2,396,439	365,755	13,080,963	37,695	19,763,849
Accumulated Amortization							
Opening balance	747,250	2,397,742	2,332,380	365,755	10,886,720	20,232	16,750,079
Amortization	12,868	102,352	9,609	-	243,651	3,493	371,973
Closing balance	760,118	2,500,094	2,341,989	365,755	11,130,371	23,725	17,122,052
Net Book Value	\$ 120,427	\$ 502,358	\$ 54,450	\$ -	\$ 1,950,592	\$ 13,970	\$ 2,641,797

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2012
Cost							
Opening balance	\$ 871,317	\$ 2,816,560	\$ 2,396,439	\$ 365,755	\$ 13,067,461	\$ 37,695	\$ 19,555,227
Additions	-	-	-	-	4,689	-	4,689
Closing balance	871,317	2,816,560	2,396,439	365,755	13,072,150	37,695	19,559,916
Accumulated Amortization							
Opening balance	733,465	2,293,037	2,321,076	363,507	10,589,026	15,867	16,315,978
Amortization	13,785	104,705	11,304	2,248	297,694	4,365	434,101
Closing balance	747,250	2,397,742	2,332,380	365,755	10,886,720	20,232	16,750,079
Net Book Value	\$ 124,067	\$ 418,818	\$ 64,059	\$ -	\$ 2,185,430	\$ 17,463	\$ 2,809,837

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2013

5. Broadcast Rights

	2013	2012
Cost		
Opening balance	\$ 12,073,056	\$ 10,460,241
Additions	4,048,898	3,253,807
Disposal of expired rights	(2,649,188)	(1,640,992)
Closing balance	13,472,766	12,073,056
Accumulated Amortization		
Opening balance	4,866,197	3,892,780
Amortization	2,944,443	2,614,409
Disposal of expired rights	(2,649,188)	(1,640,992)
Closing balance	5,161,452	4,866,197
Net book value	<u>\$ 8,311,314</u>	<u>\$ 7,206,859</u>

6. Deferred Contributions, Capital Assets

Deferred contributions related to capital assets represent the unamortized amount of grants received for the purchase of capital assets. Amortization of deferred contributions is recorded as revenue.

	2013	2012
Balance, beginning of year	\$ 2,217,838	\$ 2,543,437
Less:		
Amounts recognized as revenue	(280,736)	(325,599)
Balance, end of year	<u>\$ 1,937,102</u>	<u>\$ 2,217,838</u>

7. Deferred Contributions, Broadcast Rights

Deferred contributions related to broadcast rights represent the unamortized amount of funds received for the acquisition of programs. Amortization of deferred contributions is recorded as revenue.

	2013	2012
Balance, beginning of year	\$ 544,037	\$ 511,651
Contribution received	-	167,392
Amounts recognized as revenue	(72,180)	(135,006)
Balance, end of year	<u>\$ 471,857</u>	<u>\$ 544,037</u>

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2013

8. Income Taxes Receivable

During the course of the year, KWCC paid monthly tax installments, estimated by the Canada Revenue Agency based on prior year's taxable income, totalling \$119,516. Once the actual income tax was calculated at \$48,921 a refund of \$70,956 was due at year-end.

9. Commitments and Contingencies

Satellite Transmission Service

The Corporation acquires satellite transmission services at an annual cost of approximately \$440,500 under agreements that are renewed periodically.

Production Costs

The Corporation acquires programs which require the commitment of funds. As at March 31, 2013 the Corporation is committed to pay \$2,636,635 for licence fees over the period 2013 to 2015.

Contingencies

In the normal course of business, claims are brought against the Corporation. Where the outcomes are likely and the amounts reasonably estimatable, contingent losses are recorded. Where the outcomes are not likely, the nature and amount of the claims in excess of the amounts recorded are disclosed.

At March 31, 2013, there are no claims in excess of amounts recorded.

Knowledge Network Corporation

Notes to the Consolidated Financial Statements

March 31, 2013

10. Related Party Transactions

The Corporation is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and Crown corporations. Transactions with these entities, considered to be in the normal course of operations, are recorded at the exchange amount.

In the normal course of operations, the Corporation pays rent to BCIT, a Provincially controlled university, of \$1 per annum and its share of the building operating costs totaling \$218,467 (2012 - \$289,433).

Included in the 2013 balance of accounts receivable is \$750,000 related to a loan due from its subsidiary. This represents the \$1,500,000 (2012 - \$1,500,000) balance of the loan less the 50% impact resulting from proportionate consolidation. The loan is unsecured and bears interest at 2% per annum.

11. Segmented Information

For reporting purposes, the Corporation's activities have been aggregated into functional areas. The Consolidated Schedule of Segment Disclosure reports the revenues and expenses that are directly attributable to each functional segment. The revenues and expenses that cannot be directly attributable or allocated on a reasonable basis to individual segments are reported in the General segment. The following describes the activities of each segment:

Program Management, Presentation, and Promotions

This segment includes salaries and benefits costs of staff responsible for the acquisition of broadcast rights, management and design of broadcast content including branding, captioning of programs, and management of broadcast traffic. This segment also includes the cost of contracted editors hired to create promotional content.

Marketing and Development

This segment includes salaries and benefits costs of staff responsible for administering our Partners' donations and Knowledge Endowment Fund. This includes other operating costs related to the servicing of our donors such as the production and distribution of the program guide.

This segment also includes salaries and benefits costs of staff responsible for maintaining government reporting requirements, reporting on audience and viewership results, and implementing our marketing plans.

Broadcast Platforms and Corporate Information Technology

This segment includes salaries and benefits costs of staff responsible for the maintenance and administration of the broadcast platforms and corporate information technology infrastructures. This segment also includes operating costs related to the distribution of our broadcast signal to our audiences.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2013

11. Segmented Information - Continued

General

This segment includes all other revenues, and year-end adjustments related to the capitalization and amortization of assets, and minority interest in our subsidiary operations.

Administration

This segment includes salaries and benefits costs of staff responsible for overall administration, finance, and human resources. Operating costs also include the Corporation's share of leased facilities costs, and the costs of training and professional development of our staff.

Specialty TV Channel

This segment represents the operations of the BBC Kids tier 2 digital specialty channel via KWCC. BBC Kids is available to Canadian cable and Internet TV subscribers.

12. Pensions

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trustee pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The College Pension Plan has about 12,900 active members from college senior administration and instructional staff and approximately 5,100 retired members. The Municipal Pension Plan has about 176,000 active members and approximately 67,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The valuation for the College Pension Plan as at August 31, 2009 indicated an unfunded liability of \$28 million for basic pension benefits. The next valuation will be as at August 31, 2012, with results being available in mid-2013.

The most recent valuation for the Municipal Pension Plan as at December 31, 2009 indicated an unfunded liability of \$1.024 billion for basic pension benefits. The next valuation will be December 31, 2012 with results being available in 2013. The actuary does not attribute portions of the unfunded liability to individual employees. Defined contribution plan accounting is applied to the Plan as the Plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan.

Employer contributions to the plans in the current year amounted to \$306,495 (2012 - \$299,349).

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2013

13. Financial Instruments Risks

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of those risks at March 31, 2013.

a) Credit Risk

Credit risk is the risk that the Corporation will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist primarily of cash, portfolio investments, and accounts receivable. The Corporation has an investment policy to ensure investments are managed appropriately to secure the preservation of capital and the availability of liquid funds. The Corporation has also retained an investment firm to invest surplus funds in accordance with its investment policy. The receivables are due from various entities and individuals, thus the Corporation is not subject to concentration of credit risk.

b) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation's exposure to foreign exchange risk is limited to the funds denominated in US dollars as noted in Note 3.

c) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Portfolio investments bear some interest rate risk as the market price of fixed income securities may fluctuate based on changes in interest rates (Note 3).

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market (Note 3). The Corporation is exposed to fair value and interest rate risks on its portfolio investments.

e) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The Corporation maintains adequate levels of working capital to ensure all its obligations can be met when they fall due.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2013

14. Capital Management

The capital structure of the Corporation consists of accumulated surplus from operations and accumulated remeasurement gains and losses. The primary objective of the Corporation's capital management is to provide financial flexibility to take advantage of future strategic opportunities.

Included in accumulated surplus is the endowment fund which provides income to advance programming initiatives. Contributed principal to endowment funds are held in perpetuity and invested in accordance with the Corporation's investment policy.

Also included in accumulated surplus is the net investment in tangible capital assets and broadcast rights. These amounts are not available for other purposes because they have been invested.

Unrestricted amounts are funds available for the Corporation's future operations.

15. Accumulated Surplus

Accumulated surplus is comprised of the following:

	March 31, 2013	March 31, 2012
Invested in tangible capital assets	\$ 704,694	\$ 591,999
Invested in broadcast rights	7,839,458	6,662,822
Endowment funds	1,336,568	1,038,801
Unrestricted amounts	1,352,973	1,730,418
	<u>\$ 11,233,693</u>	<u>\$ 10,024,040</u>

16. Budgeted Figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2013

17. Impact of Accounting for Intangible Assets and Government Transfers in Accordance with the Budget Transparency and Accountability Act

As noted in the significant accounting policies, the Corporation has been granted approval to capitalize and amortize certain key intangible assets. Canadian public sector accounting standards do not recognize intangible assets in their accounting framework and require that such amounts be expensed as incurred.

The Budget Transparency and Accountability Act and its related regulations require the Corporation to account for government transfers for capital assets by deferring and amortizing them to income on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these grants to be reported in income.

The impact of this difference on the financial statements of the Corporation is as follows:

March 31, 2012

Increase accumulated surplus and decrease deferred contributions by	\$ 2,217,838
Broadcast rights and accumulated surplus overstated by	\$ 7,206,859

March 31, 2013

Increase accumulated surplus and decrease deferred contributions by	\$ 1,937,102
Broadcast rights and accumulated surplus overstated by	\$ 8,311,314

Year-ended March 31, 2012

Amortization expense overstated by	\$ 2,614,409
Amortization of deferred capital contributions overstated by	\$ 460,605

Year-ended March 31, 2013

Amortization expense overstated by	\$ 2,944,443
Amortization of deferred capital contributions overstated by	\$ 352,916

BRITISH COLUMBIA'S
Knowledge Network:

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